

**EXECUTIVE SECRETARIAT**  
**ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X <sup>5</sup>		
2	DDCI		X <sup>4</sup>		
3	EXDIR				
4	D/ICS				
5	DDI	X <sup>1</sup>			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	D/OGI/DT		X <sup>5</sup>		
18	ES		X <sup>6</sup>		
19	C/S		X <sup>7</sup>		
20	NIO/ECON		X <sup>8</sup>		
21	ER		X <sup>2</sup>		
22					
SUSPENSE		27 Jun 86 Date			

Remarks To 5: D/OGI to provide requested reaction to DCI's suggestion of what he wants and how it can be done, and in what time frame.

Executive Secretary  
20 June 86

Date

3637 (10-81)

STAT

SECRET

Executive Registry

86- 2782

20 June 1986

MEMORANDUM FOR: Director of Global Issues, DI

FROM: Director of Central Intelligence

SUBJECT: Globalization of Financial Markets:  
Implications, Vulnerabilities, and Opportunities 

25X1

1. Thanks for the report on Globalization of Financial Markets. I find it a very solid, innovative and useful piece of work and I would like to congratulate you,  and any others who worked on it.

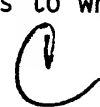
25X1  
25X1

2. It is not quite what I asked for although it makes a valuable contribution to the picture which we should develop. What I would like to see is a paper which clearly lays out the interplay between trade deficits, budget deficits, currency values, inflation, consumption methods, research and development, capital outlay levels, international debt levels, and the export of productive and technological capacity. This is a very big order. We have dealt with many of the components of this picture, breaking ground in some of them. What I asked for was some analysis of the interrelationships between these key elements and of the leverages and vulnerabilities these elements and relationships may create for various countries. What you gave me is a very good analysis of how the globalization of financial markets have livened up and loosened up the system so that the elemental forces I have cited above have in many ways become more powerful and more sensitively interrelated, but it does not get at the impact, the leverages, the vulnerabilities, the risks and potential benefits of trade and budget deficits, currency levels and investment flows, R & D and capital commitments, etc.

25X1

3. The best effort I have seen at this is in the James Fallows' article in the September 1985 Atlantic Monthly which I believe I previously brought to your attention. There is undoubtedly other work on this in the literature. I am asking Leo Cherne to give me his reaction to this and I also would like to turn to Alan Greenspan. I would first like to have your reaction as to where we can go from here.

25X1

  
William J. Casey

  
C-112-15

25X1

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**EXECUTIVE SECRETARIAT**  
ROUTING SLIP

*ER*

TO:

		ACTION	INFO	DATE	INITIAL
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16	VC/NIC				
17	D/OCT/DI		X 5		
18	<i>ER</i>		X 2		
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SUSPENSE

Date

Remarks

Executive Secretary  
30 June 86

Date

3637 (10-81)

STAT

**EXECUTIVE SECRETARIAT****ROUTING SLIP****WORKING COPY**

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Remarks To 5: D/OGI to provide requested reaction to DCI's suggestion of what he wants and how it can be done, and in what time frame.

Executive Secretary  
20 June 86

Date

3637 (10-81)

STAT

DCI  
EXEC  
REG

Executive Registry

86- 2782

WORKING COPY

20 June 1986

MEMORANDUM FOR: Director of Global Issues, DI

FROM: Director of Central Intelligence


SUBJECT: Globalization of Financial Markets:  
Implications, Vulnerabilities, and Opportunities (C/NF)

1. Thanks for the report on Globalization of Financial Markets. I find it a very solid, innovative and useful piece of work and I would like to congratulate you, [redacted] and any others who worked on it. (U)

25X1

2. It is not quite what I asked for although it makes a valuable contribution to the picture which we should develop. What I would like to see is a paper which clearly lays out the interplay between trade deficits, budget deficits, currency values, inflation, consumption methods, research and development, capital outlay levels, international debt levels, and the export of productive and technological capacity. This is a very big order. We have dealt with many of the components of this picture, breaking ground in some of them. What I asked for was some analysis of the interrelationships between these key elements and of the leverages and vulnerabilities these elements and relationships may create for various countries. What you gave me is a very good analysis of how the globalization of financial markets have lived up and loosened up the system so that the elemental forces I have cited above have in many ways become more powerful and more sensitively interrelated, but it does not get at the impact, the leverages, the vulnerabilities, the risks and potential benefits of trade and budget deficits, currency levels and investment flows, R & D and capital commitments, etc. (S)

3. The best effort I have seen at this is in the James Fallows' article in the September 1985 Atlantic Monthly which I believe I previously brought to your attention. There is undoubtedly other work on this in the literature. I am asking Leo Cherne to give me his reaction to this and I also would like to turn to Alan Greenspan. I would first like to have your reaction as to where we can go from here. (U)

  
William J. Casey

DCI  
EXEC  
REG

C-112-11

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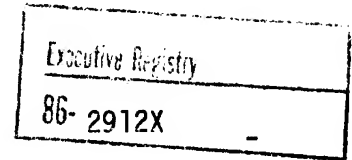
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## THE WHITE HOUSE

WASHINGTON

President's Foreign Intelligence Advisory Board  
Room 340 - OE0B



June 26, 1986

The Honorable William J. Casey  
Director of Central Intelligence  
Washington, D.C. 20505

Dear Bill:

I am happy that you asked me to read the lengthy document and appendices addressed to the profoundly new developments in the field of global finance. I will undoubtedly have further opportunity to discuss my reactions with [redacted] and perhaps the two colleagues who worked with him in the preparation of this document.

25X1

In the meantime I have several observations which I wish to convey. First of all, the study is of the highest importance. Its content and preparation mirror that fact. I frankly found it a singularly impressive piece of work, and since [redacted] and [redacted] were involved in its preparation, and [redacted] is identified by [redacted] as the one who wrote the study, I do want to express my admiration of the quality of their work and the exceptional clarity and comprehension reflected in the writing.

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In your letter to [redacted] which accompanies the report, you indicated that it would be especially useful if this analysis could now be taken several steps forward, and that greater specificity suggest the leverages, the vulnerabilities, and the opportunities created by the remarkable changes and linkages which are reflected in the analysis itself. I do not disagree with the desirability that wherever possible these be spelled out in greater detail, though I must say that throughout the analysis a number of the vulnerabilities and, to a lesser extent, the opportunities are identified.

25X1

What is less apparent is some greater detail which would be useful in the policy formation process indicating how the vulnerabilities might be protected against or diminished, and how the opportunities might be exploited. Even as I say this, however, I must add that I recognize that your request will not easily be filled.



C-112-15

I have another concern. It is one which troubled you when you were a member of PFIAB, has concerned PFIAB ever since my

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The Honorable William J. Casey  
June 26, 1986  
Page 2

association with the Board in 1973, and still continues to exist even though certain steps which have been taken as a result of your initiatives have addressed themselves to this problem. The problem is the perennial one of how the consumer is led to devote the time and thought to this document that is essential and, in the case of this subject, make creative contributions of which they are capable on the other questions you have raised. I am thinking particularly of the Federal Reserve Board, the Treasury Department, the Council of Economic Advisers, the Commerce Department, and the National Security Council as the most notable of the consumers inescapably affected by and frequently involved in the subject matter of the analysis.

This aspect of structural change is of such monumental importance that I do wish there were a sufficient number of people in and out of government equipped to comment on the document and hopefully take it the further step. As you know, I regard Alan Greenspan as perhaps preeminent among those with this capability. I have already been in touch with him and he will in turn contact [redacted] Alan [redacted] has agreed to study the document carefully, and [redacted] is expecting a phone call from him to set up a date when Greenspan will read it. I know he plans to be in touch with you after that, but I am inclined to think that the most useful way of extracting his judgements would be for one or more who have been involved in the preparation of this analysis to come up to New York and visit with Greenspan.

25X1  
25X1

I have several comments on the analysis itself which I will make at this point. Not having the document available, I cannot identify the pages where the particular comments are most relevant.

1) At one point there is a listing of the various factors which affect international competition. I find notable one absence factor (and this is chronically the case with economists in and out of the Agency who look at the dynamics of international competition). There is no recognition of any kind that the culture of all countries plays an extremely important role in determining not only the policies of those nations in relation to their competitors, but is often common in establishing the actions of consumers, individual and corporate. I am increasingly of the view that we give slight attention to the particulars of the competitive interaction between the United States and Japan as they are shaped by our respective and very different cultures.

I recently made a talk to a group of some 26 Japanese executives in response to the desire to hear my view of how our very different cultures affect both our policies and the competitive behavior of each of our two countries. As soon as the taped manuscript of that talk is typed, I will send a copy to [redacted] even

25X1

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The Honorable William J. Casey  
June 26, 1986  
Page 3

though the thirty minutes allotted to me made it possible for me only to illustrate the impact of our respective cultures on our business practices and governmental policy.

2) Secondly, there is a handwritten note which may in fact be yours in which it is suggested that the language used in the analysis referring to the role of corruption among some of our overseas friends be softened. I understand the desire for this especially in an atmosphere in which even the most sensitive documents may not be assured total privacy. Nevertheless, on

25X6

3) In your desire to have greater specificity added, there is an illustration provided by the analysis itself and it is one of many places in which, if possible, it would be useful to do this.

The document refers to the fact that the United States has influenced the world interest rates as well as the effect of the dollar's value on the world economy. These are useful generalizations. They would be more useful still if there were specific detail which expands these aspects of interconnectedness with policy illustrations of what it is that can be done by us in these areas of world effect.

4) I think there is insufficient attention given to the effect of the declining value of the dollar on foreign capital flowing into the United States and the consequent impact of the availability of sufficient foreign capital to fund the interest of our annual deficits with the possibility that a rise in U.S. interest rates may be both unwelcome and nevertheless necessary to sustain a required in-flow of capital. Of course, if such a move is forced on us, there are a host of effects on our economy and in turn on the world economy that would flow from the efforts we make to shore up a declining rate of foreign investment in U.S. obligations.

5) There is in my opinion too bland and optimistic an assumption that the LDC debtors, and I am thinking particularly of those in Latin America, will somehow muddle through. Even as I hope that that assumption is correct, it seems to me that there is an urgent need to spell out in some detail what would be the significance of an important default (i.e. Mexico). Their own political situation cannot leave us totally sanguine that this simply will not occur, and if it does, it may set in motion defaults in other nations, any one of which would affect our banking structure, our economy, and, in turn, the world economy.



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The Honorable William J. Casey  
June 26, 1986  
Page 4

I close where I began. You could not have been more specific in your expressed wish to have spelled out in further detail the interplay between trade deficits, budget deficits, currency values, inflation, consumption methods, research and development, capital outlay levels, international debt levels, and the export of productive and technological capacity. The wish could hardly have been expressed more clearly. But what an undertaking!

Warm regards.

Sincerely,

A handwritten signature in cursive script, reading "Leo Cherne".

Leo Cherne

LC/cl

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THE WHITE HOUSE  
WASHINGTON

The Honorable William J. Casey  
Director of Central Intelligence  
Washington, D.C. 20505

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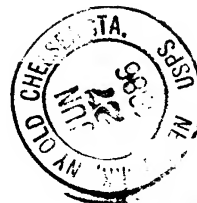
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*The Research Institute of America, Inc.*

*Research Institute Building*  
*90 Fifth Avenue, New York, N.Y. 10.*

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**REGISTERED**

The Honorable William J. Casey  
Director of Central Intelligence  
Washington, D.C. 20505

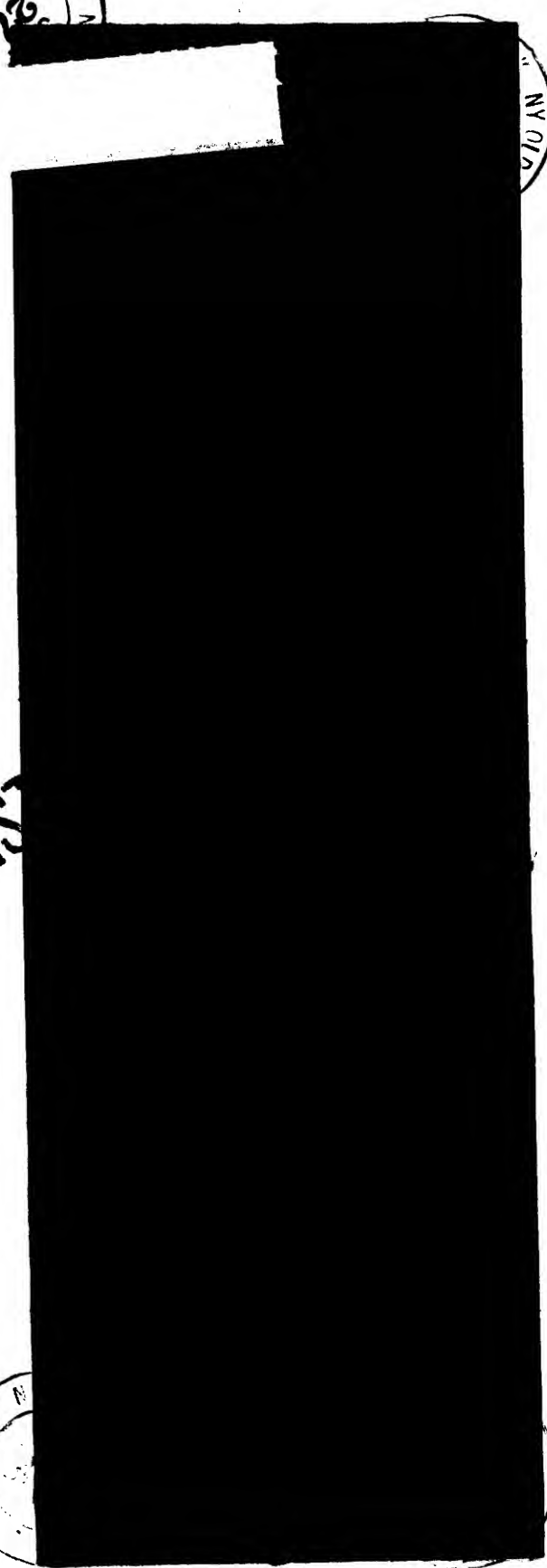
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